

**UNIVERSITI MALAYSIA SABAH**

**BORANG PENGESAHAN STATUS TESIS**

**JUDUL : THE RELATIONSHIP BETWEEN EMPLOYEE AND JOB PERFORMANCE**

**IJAZAH : SARJANA PENGURUSAN MODAL MANUSIA**

**SESI PENGAJIAN: 2011-2012**

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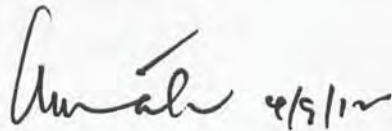
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THE RELATIONSHIP BETWEEN EMPLOYEE CAPABILITY  
AND JOB PERFORMANCE

DAYANGKU SITI NORAIN BTE PG. ALLI RAHMAN

THESIS SUBMITTED IN FULFILLMENT FOR THE DEGREE  
OF MASTER HUMAN CAPITAL MANAGEMENT

SCHOOL OF BUSINESS AND ECONOMICS  
UNIVERSITI MALAYSIA SABAH  
2012

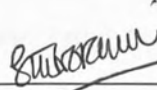


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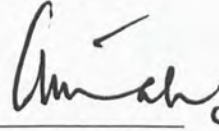
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## ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and the Most Merciful.

Alhamdulillah, all praises to Allah for the strengths and His blessing, without His blessing I would not able to complete this dissertation.

I would like to thanks my supervisor, Assoc Prof. Dr. Arsiah Bahron for her guidance, patience, motivation, all comments and critics in doing my dissertation. I also would like to thanks to all my Master of Human Capital Management's colleague who are together with me through hard time.

Last but not least, the most important person in my life, I would like to express my sincere gratitude towards my parents who have been supportive enough to me. Not forgetting all my siblings for their kind and love.

Dayangku Siti Norain Bte Pg. Alli Rahman

30 August 2012



## **ABSTRACT**

### **THE RELATIONSHIP BETWEEN EMPLOYEE CAPABILITY AND JOB PERFORMANCE**

The main purpose of this study is to investigate whether there is a relationship between employee capability and job performance. In addition, this study also examines the effect of demographic factor as the moderator on the relationship between employee capability and job performance. Other than that, this study investigated the differences on employee capability between male and female and also between management group and supporting staff group in Immigration Department of Malaysia in Kota Kinabalu, Sabah. In addition to that, this study uses demographic factor such as age, education level and length of service as the moderator variables in the relationship between employee capability and job performance. A significant relationship between employee capability and job performance was found. The relationship between employee capability and job performance was not moderated by demographic factor (age, education level and length of services). However, there is a significant difference on employee capability between male and female. In addition, there is a significant difference on employee capability between top level management, middle management and lower level of management.

## **ABSTRAK**

*Tujuan utama kajian ini di jalankan adalah untuk menyiasat samaada terdapat hubungan antara keupayaan pekerja dan prestasi kerja. Disamping itu, kajian ini juga mengkaji kesan faktor demografi sebagai moderator kepada hubungan antara pekerja dan keupayaan prestasi kerja. Selain daripada itu, kajian ini disiasat perbezaan kepada keupayaan pekerja antara lelaki dan perempuan dan juga antara kumpulan pengurusan dan kakitangan sokongan kumpulan di Jabatan Imigresen Malaysia di Kota Kinabalu, Sabah. Di samping itu, kajian ini menggunakan faktor demografi seperti umur, tahap pendidikan dan tempoh perkhidmatan sebagai pembolehubah moderator dalam hubungan antara keupayaan pekerja dan prestasi kerja. Satu hubungan yang signifikan antara keupayaan pekerja dan prestasi kerja telah didapati. Hubungan antara keupayaan pekerja dan prestasi kerja tidak disederhanakan oleh faktor demografi (umur, tahap pendidikan dan tempoh perkhidmatan). Di samping itu, terdapat perbezaan yang signifikan pada keupayaan pekerja antara lelaki dan perempuan. Walaubagaimanapun, terdapat perbezaan yang signifikan terhadap keupayaan pekerja antara pengurusan peringkat atasan, pengurusan pertengahan dan pengurusan tahap yang lebih rendah.*

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## LIST OF ABBREVIATIONS

|              |                                    |
|--------------|------------------------------------|
| <b>ANOVA</b> | Analysis of Variance               |
| <b>KMO</b>   | Kaiser-Meyer-Olkin                 |
| <b>PMR</b>   | Penilaian Menengah Rendah          |
| <b>SPM</b>   | Sijil Pelajaran Malaysia           |
| <b>STPM</b>  | Sijil Tinggi Persekolahan Malaysia |





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## CHAPTER 1

### INTRODUCTION

#### 1.1 Introduction

Human capital is a valuable asset to an organization that constantly needs to be sharpened and developed so that it can be used as a key weapon in competing with other organizations in an increasingly competitive business world. Highly skilled, motivated and flexible workforce can help develop company's sustainable core competencies (Levine, 1995). The need of high capability of worker become crucial nowadays where each organization scrambled to find employees who have the talent, quality and strong desire to advance himself and his career from time to time. Employees who have the high capacity and capability will provide a great competitive edge to other organization. At present, every organization in the world especially the large operation such as PETRONAS and SHELL is willing to withdraw large amount of investment on employee to develop and hone their talent and capability in way to achieving the organization objective and goal.

Although the modern theory of human capital has been developed over the past half century, but there are research suggest that the concept of human capital has actually been there around the 17th century. Around 1691, Sir William Petty puts the value on labor, estimating the value of human capital to show the power of England and the estimated cost of lost lives in war and other deaths (BF Kiker 1966).

Generally human capital are consisting individual's capabilities, knowledge, skills and experience of the company's employees and managers, as they are relevant to the task at hand, as well as the capacity to add to this reservoir of knowledge, skills, and experience through individual learning (Dess & Picken 2000). Wright (2001) defines human capital as the stock that consists of human (the knowledge, skills and abilities of people) social (the valuable relationships among people) and organizational (the processes and routines within the firm).



The importance of human capital now is become crucial and every firm or organization competes to hire the high capabilities of workers who have excellent skill and knowledge in the business area. High capabilities of worker will produce high quality of work force and then it will enhance the company performance.

## **1.2 Problem Statement**

The fluctuate business trends due to the growth of technology and the greater demand from consumers has open up huge business opportunities for many firm and organization .This has led to the increasing number of firms and organizations that provide the same products and services. For example in the oil and gas industry, there are many organizations that offer services and products from oil and gas such as Petronas, Shell, Esso, Murphy and more. The growth of firm which is offering the same products and services has caused intense competition. Accordance with the stiff competition in an increasingly competitive business world, the need for high capabilities of workforces is crucially necessary to compete with other organizations.

In the government sector, the aspect was emphasized and the application of the Competencies Level Evaluation (PTK) was conducted to measure the efficiency of employees in the government sector. In the private sector, they much concern about their job performance and their competitive advantages, however compare to public sector, competitive advantages is not a crucial issues that been highlighted.

However, the public sector in fact playing an important role in helping boost the economy of our country. Therefore, empirical research should be increased further to strengthen the capability of public sector so that it can continue to contribute to the progressive of our economy. Recent year, our government has made huge transformation in public services by introduce high performance culture. In line with this, the new performance measurement was applied.



Key Performance Indicator's (KPI's) was one of the transformation program that been applied by Malaysian government and also other government all around the world. The application of the KPI system will help the government improve service and productivity of the workers in the public sector. In addition, it also helps to focus the level of employee performance, where each employee will have a performance target has been set and must be achieved.

The problem being investigated in this study involves three related issues: First, Does the level of employee capability can affect their performance? Second, does the demographic factor can affect the relationship between employee capabilities and their job performance? And third, whether there is a difference on employee capability between male and female and also between management group and supporting staff group.

### **1.1 Research Objective**

This study was conducted to investigates and analyzing the relationship between employee capability and job performance. Other than that, this study also examines the effect of demographic factor as the moderator on the relationship between employee capability and job performance. In addition, this study also investigates the differences on employee capability between male and female and also between management group and supporting staff group. Specifically, these studies have the following objective as below:

1. Identify whether there is a relationship between employee capability and job performance
2. Examine the effect of demographic factor as the moderator on the relationship between employee capability and job performance
3. Investigate the differences on employee capability between male and female.



4. Investigate the differences on employee capability between management group and supporting staff group.

## **1.2 Significance of the Study**

Employee capabilities are the most important aspect that must be highlighted by the management in the organization. Employee capabilities, also known as intellectual capital are refer to the knowledge, skill and ability that the employee have.

Most of the present study only focuses on possible relationship between motivation such as job satisfaction and job performance. Perhaps there is also research to see the skill level of an employee relationship with his or her performance, but aspects such as individual capability and job performance is not emphasized and studied simultaneously. Most existing studies focus more on the relationship between organizational justice, fairness in reward as the independent variable and work performance and job satisfaction of employees as dependent variables.

Future research may consider includes other factors such as personality factors to represent personality components in the model of employees' performance such as personality factors, role perceptions factors and also organizational factors such as organizational justice and others (Fauzilah Salleh, Noryati Yaakub and Zaharah Dzulkifli, 2011).

Study on the capability of workers and its influence towards their performance is very important. This is because in order for firm or organization to become efficient and highly competitive, the level of high skill and knowledge of the employee is required in performing a task. For example in the oil and gas industry, high knowledge and skills are required and necessary in performing certain task. It is because, any task that been given has specific procedures and special knowledge, skill and ability. As a result, workers will be given full training to learn each step or procedure in performing the tasks. Failure in accordance with these procedures will result in large errors where it can influence the quality of

their productivity. Small error in this industry can sometimes result in significant losses and it also can affect the safety of the other workers.

Therefore, this research will have a significant impact where it can assist the management of the organization to use existing resources, the employees in the company by hone their capabilities through effective training so that the company was able to produce efficient workers and who have high competitiveness. High quality employees will help the organization to achieve their goals and objectives and then become one of the highly competitive organizations in the global business market.

In addition, this study will also help the managers in an organization to identify high potential employees who have a high level of capability in carrying out their duties. Employee who have a high potential need to be observe best by the organization where they need to be retained in the organization. To sustain these potential employees, the organization needs to provide incentives and rewards commensurate with performance and capabilities they have.

This study also provides guidelines to managers and human resource officer in an organization to identify the training needs of employees to enhance and sharpen the knowledge, skills and abilities of their employees.

### **1.3 Scope of the Study**

The scope of this study will consist of two main groups of variables: employee capabilities and employee job performance. Demographic factor will be the moderator variables in determined the relationship between employee capabilities and their job performance. The respondent of this studied are Immigration Officer from Immigration Department of Malaysia, Kota Kinabalu Sabah branch. The questionnaire was distributed in four locations around Kota Kinabalu, it was Komplek Pentadbiran Persekutuan Kota Kinabalu Sabah, Kota Kinabalu International Airport Terminal 1, Kota Kinabalu International Airport Terminal 2 and special units at Wisma Dang Bandang.



## 1.4 Definition of term

### 1.4.1 Employee Capability

In terms of business and economics, employee capability refers to the knowledge, skills and attitude of a person. It includes technical, business, personal and professional expertise Which can be developed by formal and informal learning, observation, mentoring, guidance, feedback, Lifelong experience and reflection.(*Queensland Public Service, and Leadership Capability Framework, 2010*). Knowledge is interpreted as information with an applied interpretation process (Penrose, 1959; Davenport and Prusak, 1998; Liebowitz and Wright, 1999).

Shermon (2004) and Marshall (2001) has defined employee capability or competencies as an underlying characteristic of a person, which enables him to deliver superior performance in a given job or role. Shermon (2004) underlines that the characteristics could be called an attribute bundle which consists of knowledge, skills, traits, social role, self image and motive. For the purpose of this study, the capabilities that will be measure only focus on knowledge, skills and ability of a worker.

In term of individual, capability can be defined as the form of knowledge, skill and aptitude or attitudes while in the organization context in the form of database, technology, processes and also procedures. Moore et al., (2002) identified capability as the knowledge, skills, experience, value judgement and social network that generate a capacity to act (Sveiby, 1997) and being more than a combination of ability and willingness to do a task (Hayes, 1979).

Capability also can be refer as level of competence of the employee in performing a task. Woodruff (1991) and Moore et al.,(2002) suggest that competence is being used to refer the two factor. The two factor are the proven

ability to perform a job competently to reach the standard required in employment and the other factor are the sets of behavior an individual employee must display in order to perform the tasks and functions of job with competence.

Bontis and Serenko (2007) has categorized capability into six features. The six features are knowledge, skill, experience, social networking, access to ongoing development and abilities to reach results but the most important part is that capabilities enable the employee to apply their knowledge, skills and abilities in a performing task in the organization.

### *1.5.2 Job Performance*

Job performance is a function of ability and motivation the industrial and organizational psychology (Campbell et al.,1976) and is the interrelationship between three main components i.e., motivation, skill levels, attitudes, demographic and organizational (Churchill et al.,1987). Karatepe (2006) defined job performance can as the level of productivity of employee on the job related outcomes.

According to Motowidlo and Schmit (1999) and Murphy and Shiarella (1997), nature of job performance in the organization depends on the demands of the job, the goals and mission that set by the organization itself and also the belief in the organization about which behavior are most valued. Juan Cevich and Robbins (2001) identified job performance are affected by three main factor that refer to capacity to perform, opportunity to perform and willingness to perform. Job performance can be divides into task performance and contextual performance.



#### *1.5.2.1 Task performance*

Motowidlo and Schmit (1999) define task performance as behavior that contribute to the core transformation and maintenance activities in the organization such as producing product, selling merchandise, acquiring inventory, managing subordinates or delivering services.

According to Aguinis (2009), task performance involves activities that transform raw materials into the goods and services that are produce by the organization and activities that help with the transformation process by replenishing the supply of raw material, distributing its finished products, or providing important planning, coordination, supervising or staff function that enables the organization to function effectively and efficiently.

#### *1.5.2.2 Contextual performance*

Motowidlo et al., (1997) and Podsakoff and Mackenzie (1997) defining contextual job performance involve persistence, effort, compliance and self displine in increasing the effectiveness of individual worker and manager.

According to the Bateman and Organ (1983), contextual performance might show employee willingness to help the organization and voluntary behavior may also be used to demonstrate skills and ability that are required for achievement but are not needed in the employee present job.

#### *1.5.3 Demographic factor*

Demographic factor that will be focused in this study are age, length of service and the education level. This factor will act as moderator on relationship between employee capability and job performance.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

An employee capability has become the important issues that always had been discussed by human resource management all over the world. Employee has become a valuable capital that need to be develop continuously by the organization. In way to achieve competitive advantages, it was important for any organization to have alternative, high skilled, motivated, and flexible worker (Levine, 1995).

This chapter reviews the literature relevant to the development of the conceptual model to be tested in the study. First, a review of previous literature in the field of employee capability provides a foundation for understanding the concepts of its dimensions. This review also provides the theoretical and empirical background for the study.

This chapter provides a framework that explains how employee capability impact employees job performance. Third, the impact of organizational justice perceptions on employees' attitudinal and behavioral outcomes is explored. Fourth, the relationships among the constructs are reviewed, and several propositions are also derived, based on the relationships.

#### **2.2 Employee capability**

Capabilities of workers to describe perceptions of individuals who possess the knowledge or skills in which they provide an opportunity for the employee to increase his potential through experience, network and ability to reach a decision, (Bontis, Dragonetty, Jacobsen and Roos, 1999). Generally, workers ability to refer to the individual advantage is including the knowledge, ability and skill in performing certain tasks and jobs.





One of the most recent models to challenge traditional concepts of learning and which looks at outcomes as well as process is that of capability (Stephenson and Weil, 1992). Capable people can be classified as the person those able to learn, creative, have a high degree of self-efficacy, ability to apply competencies in work.

Capabilities are also identified as competency. Even though most of the employee and people think that capability and competencies bring same meaning, however competencies are a little bit difference from capability. Competencies are involves with the acquisition of knowledge and skills, capability is a holistic attribute (Hase, 2000). Meanwhile, Capable people are more likely to be able to deal effectively with the turbulent environment in which they live by possessing this 'all round' capacity. Preparedness for continual change is a key attribute for people in any workplace (Hase, 2000).

According to the Graves (1993), Stephenson et al., (1992), application of the capability concept has largely involved the creation of innovative learning experiences that help develop the elements of capability in individuals both education settings and in the workplace. There is a growing belief that employee capabilities has become an important issues in many organization as developing a critical mass of employee who are knowledgeable or skilled in a particular technology may constitute a potential source of competitive advantage for organization (Khandekar and Sharma, 2005).

In this new context companies need to develop clearly defined strategies that will give them a competitive advantage (Porter, 2001; Barney, 1991). For this, organizations have to understand which capabilities they need in order to gain and maintain this competitive advantage (Barney, 1991; Prahalad and Hamel, 1990). According to Huselid (1995) and Guthrie (2002) emphasis on utilizing a system of management practices that provide employees with skills, information, motivation, and latitude, resulting in a work force that becomes a source of competitive advantage.

The concept and perspective of human capital stem from the fact that there is no substitute for knowledge and learning, creativity and innovation, competencies and capabilities; and that they need to be relentlessly pursued and focused on the firm's environmental context and competitive logic' (Rastogi, 2000). Teece, Pisano and Shuen (1997), Khandekar et al.,(2005), Schlemmer and Webb (2006) and Mahra Salleh (2010) has recently extended the perspective of human capital capability to consider dynamic capability which is defined as organizations ability to integrate, build and reconfigure internal and external resource to address rapidly changing environments.

In addition, employee capabilities and dynamic capabilities are complementary to each other which will enable both employee and organization ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions (Amit and Schoemaker, 1993; Khandekar et al., 2005).

Most of the previous studies highlighted the importance of employee capability and the result showed that employee capability can affect the competitiveness and the performance of the organization. Accordance with this, Pfeffer (1994) specifically points out that all companies must make HR investments to acquire and develop employees who possess better skills and capabilities than their competitors to succeed in today global business environment. Also, proper training programs are alleged to further increase employee skills and enhance efficiency (Cooke, 1994).

In way to meet the competitive advantage, organizations that seek to improve their capabilities need to identify and manage their knowledge assets (Marr and Chatzkel, 2004). If the types and levels of skills are not equally distributed, such that some firms can acquire the talent they need and others cannot, then (*ceteris paribus*) that form of human capital can be a source of sustained competitive advantage (Snell et al., 1996).



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